Soft Power and Collective Decision

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I. Introduction

This paper, in the first section, briefly surveys what impacts the new technological revolution centering around information technology has had upon economies, state behaviors, and the international system. In doing so, the paper aims to draw some tentative observations on what changes the international system has undergone, what type of system it has been heading toward, and what has become a critical source of power under the emerging international system. The paper then explores "soft power" as a new source of power, which Josef S. Nye, Jr. put forth, as well as collective decisions as a new pattern of interactions in the emerging system.[1]

In the second section, the paper attempts to elaborate the concepts of soft power and of collective decisions. In the third section, exclusively relying on secondary sources, especially Joseph Kraft's and others' analysis of the international decision making process to cope with the Mexican debt crisis in 1982,[2] the paper presents an application of the concept of soft power and collective decisions in U.S. responses to the case. In doing so, the paper attempts to test the applicability of the concepts.

II. Impacts of the Information Revolution Upon Economies, State Behaviors, and the System

As summarized in Figure 1: Soft power and collective decisions and actions system, it might be said that the information revolution has transformed the major powers' structures of domestic economy, their external behaviors, and the system. First, the major features of the domestic economy of hegemony under the old technology system, for example, can be described as below. Here, the U.S. is tacitly conceived as a model for hegemony.

The old technology system, which sustained the hegemony, was mass production technology.[3] Each technological innovation needs to be accompanied by a corresponding organizational innovation so that its technological advantages can be fully materialized in production.[4] Thus, mass production technology has been ac-

* I am grateful to Professor Toru Yanagihara for introducing Joseph Kraft's *The Mexican Rescue* to me.

companied by its corresponding organizational innovation, the centric organization system.[5]

Under the old technology system, products are considered to be "packages of materials and energy,"[6] where the quantitative advantage in material and energy resources could be said to constitute comparative advantage. This was probably one of the reasons together with its superiority in mass production technology that enabled the hegemonic power to rise and keep its No. 1 economic position.

Conversion from economic resources to political power was direct simply because the quantitative advantage in the size of the economy, enabled the hegemonic power to deploy larger forces for coersive policies and to mobilize larger sums of money for incentive policies.

Under the old technology system, the hegemonic power emerged with quantitative superiority in the size of economy and established the hegemonic rule in the system, or, in other words, the hierarchical order in alliance, which corresponded to the centric organizational structure in the form of domestic manufacturing.

The hegemonic power maintained the hegemonic rule by providing public goods. They were international economic order and international security. The major means for its power over member states were, therefore, (1) economic incentives, which were access to the free trade market, the provision of key currency and free access to the financial market, and (2) coersive forces to provide international security. The hegemonic power provided these public goods solely through unilateral actions.[7]

The oil shocks in the 1970's rendered the old technology system outmoded. They brought forth resource constraints and upset the general idea that products are "packages of materials and energy."

This had a direct impact upon external behavior. The resource constraints led to the decline of U.S. competitiveness and subsequently led to an expansion of trade deficits. It fed back to external behavior by cutting down its economic base upon which the hegemonic power relied in its exertion of influence through coersive and incentive policies. Thus the economic base for the hegemonic rule was undermined.

In the aftermath of the oil shocks, the application of information processing technology, a new technology system which had been underway well before the shocks, was accelerated to overcome the resource constraints. The world entered into a new technology system era in the late 1970's and early 80's.

The new techonology system, which is accompanied by a corresponding organizational innovation, a network, has changed the old notion of products into a new one. Products are "packages of materials, energy, and services." Here, services are the information services related to production such as R&D, product planning, designing, financial planniong, plant and equipment planning, management,and others. Information functions as factor substitution so that materials and energy input can be drastically curtailed. A large portion of the added-value of products and services are now brought about by information input.[8] Networks, corresponding to the new technological innovation, are decentralized organizations and the nexus of information flow, through which various independent actions such as production, R&D, finance, and marketing, can be effectively coordinated and conducted.

Under the new technology system, as a major portion of added-value is produced

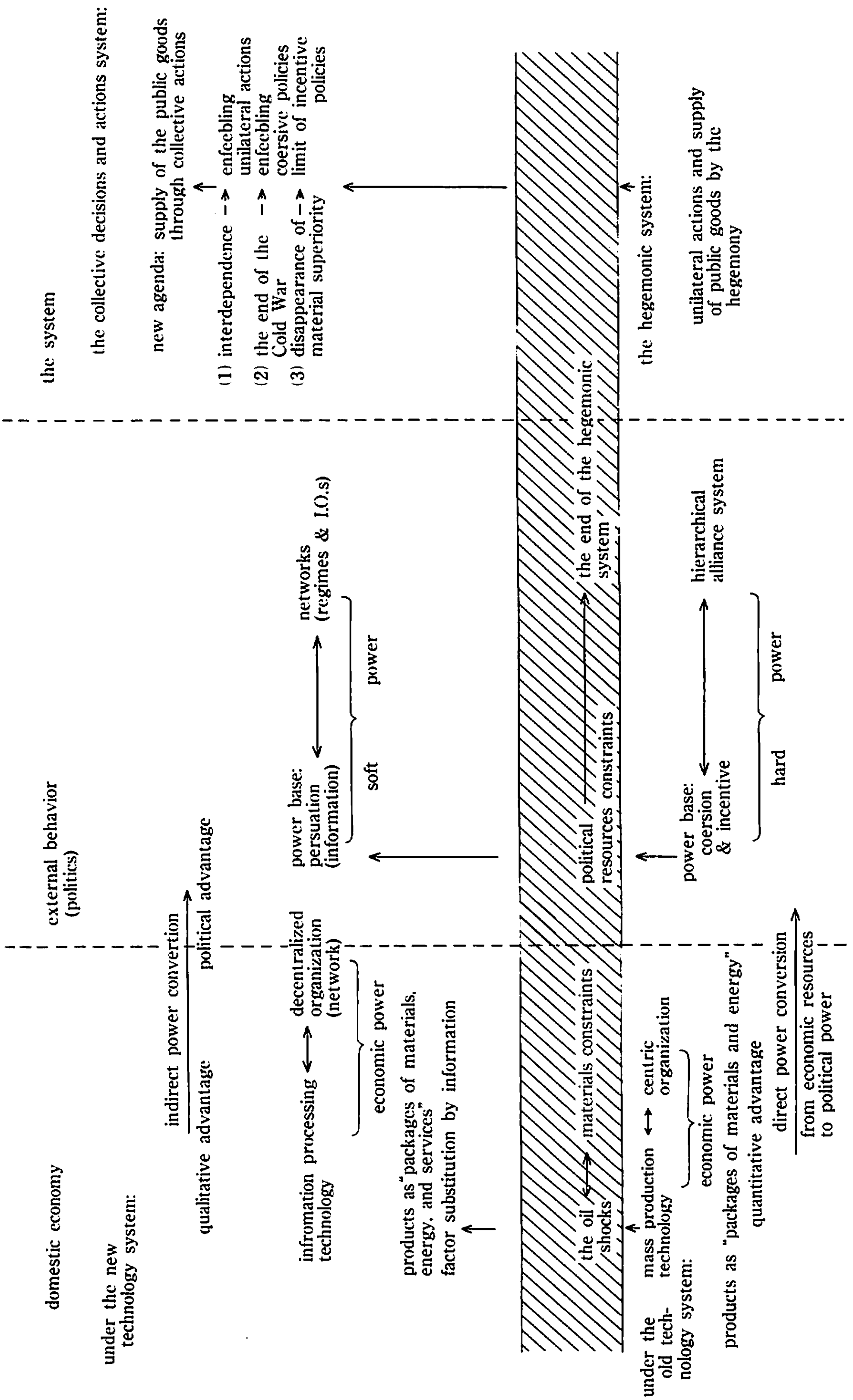

Figure 1 Soft power and collective decisions and actions system

by information input, a qualitative advantage based on better information input and its better exploitation constitutes a comparative advantage.

Since the decline of competitiveness and the expansion of trade deficits led to an economic constraint on external activities, the less monetary resources became available for external activities the more the hegemonic country came to rely on non-monetary resources, that is, persuasion and exploitation of collective actions through formal and informal networks such as regimes and international organizations.

Therefore, conversion from economic resources to political power has become indirect. Power exertion can take place when power-exerted states change their actions through conceptual and attitudinal changes in response to persuasion from the power-exerting state. In other words, the exertion of political influence is realized by showing the difference in calculated costs and benefits of power-exerted states between staying on the current course of action and adopting the proposed course of action.

In order for this indirect power conversion to be effective, an accompanying organizational innovation is indispensable, if we follow the patterns of economy. That is, as already mentioned, network. Network is the core of information flow and interactions among decision makers for reaching collective decisions and obtaining collective actions.

"Soft power", therefore, might be defined narrowly for the purpose of making it as applicable as possible, as a persuasive ability primarily based on reliable information, knowledge, ideas, and concepts to induce other states to make collective decisions for the supply of public goods through interactions via formal and informal networks. Here, networks can serve as critical catalysts. They help to disseminate ideas and build interactions for collective decisions.[9]

In the post hegemonic system, three features give rise to the collective decisions and actions system. First, deepening interdependence diminished the effectiveness of unilateral actions. Interdependence cuts down the effectiveness of unilateral policy. Instead, it demands policy coordination, as in the case of monetary policy.

Secondly, the end of the Cold War makes coersive policies less acceptable. International justice has come to carry more weight.[10]

Third, the hegemonic power has lost its material superiority and its foreign aid policies have reached their limits.

As an alternative, the collective decisions and actions system is beginning to emerge. The core of its influence is "soft power."

III. Soft Power and Collective Decisions

i. Soft Power

Nye explored a new dimension of power, co-optive power or soft power. His concept of soft power might be a critical factor in world politics of interdependence, especially in this era of information technology.

Getting other states to change might be called the directive or commanding

> method of exercising power. Command power can rest on inducement ("carrots") or threat ("sticks"). But there is also an indirect way to exercise power. A country may achieve the outcomes it prefers in world politics because other countries want to follow it or have agreed to a system that will produce such effects. In this sense, it is just as important to set the agenda and structure the situations in world politics as it is to get others to change in particualar situations. This aspect of power — that is, getting others to want what you want — might be called indirect or co-optive power behavior. ... Co-optive power can rest on the attraction of one's ideas or on the ability to set the political agenda in a way that shapes the preferences that others express. ... Political leaders and philosophers have long understood the power that comes from setting the agenda and determining the framework of a debate. The ability to establish preferences tends to be associated with intangible power resources such as culture, ideology, and institutions. This dimension can be thought of as soft power, in contrast to the hard command power usually associated with tangible resources like military and economic strength.[11]

The more the concept of soft power is put into operational terms the more usable it will be as an analytical tool. J. D. Singer's classification of influence techniques into reinforcement and modification will be helpful for this purpose.

In Singer's table "Hypothesized relevance of influence techniques" shown below, "Row 4 emphasizes that case 1, 3, 5, and 7 are reinforcement or behavior stabilization", in which "A, regardless of his predictions, prefers that B's future behavior remain as it is in the present." Here, A is the influencer and B is the influencee. "Conversely, cases 2, 4, 6, and 8 are modification or behavior change situations, again disregarding A's prediction of B's future behavior."[12]

A portion of the essence of soft power might be represented by Singer's concept of the reinforcement technique in persuasion and dissuasion situations. Soft power is not as likely to be a coersive one as a non-coersive one, (a persuasive and dissuasive one). Part of the manner by which soft power is exerted is, therefore, more likely reinforcement. That is, an influencer attempts to exert influence on an influencee when perceived future behavior of the influencee deviates from its present

Table 1 Hypothesized relevance of influence techniques

	Persuasion Situations: A Prefers X				*Dissuasion Situations: A Prefers O*			
	1	2	3	4	5	6	7	8
Preferred Future Behavior	*X*	*X*	*X*	*X*	*O*	*O*	*O*	*O*
Predicted Future Behavior	*X*	*X*	*O*	*O*	*O*	*O*	*X*	*X*
Perceived Present Behavior	*X*	*O*	*X*	*O*	*O*	*X*	*O*	*X*
Reinforce or Modify	R	M	R	M	R	M	R	M
Punish?	No	P	No	Yes	No	P	No	Yes
Reward?	Yes	No	Yes	No	Yes	No	Yes	No
Threaten?	P	Yes	Yes	Yes	P	Yes	Yes	Yes
Promise?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

J. D. Singer, "Inter-Nation Influence: A Formal Model," in James N. Rosenau, *International Politics and Foreign Policy*, revised edition, (New York: The Free Press, 1969), p. 388.

course or the one which an influencer wants him to pursue.[13]

Singer's concept of reinforcement may not include the active aspects of soft power such as, in Nye's words as cited above, "setting the agenda and determining the framework of a debate." However, it may well represent the non-coersive aspect of soft power.

ii. Collective Decisions

Kurt Dopher identifies two different types of collective actions as shown in his figure "Categories of collective behaviors."

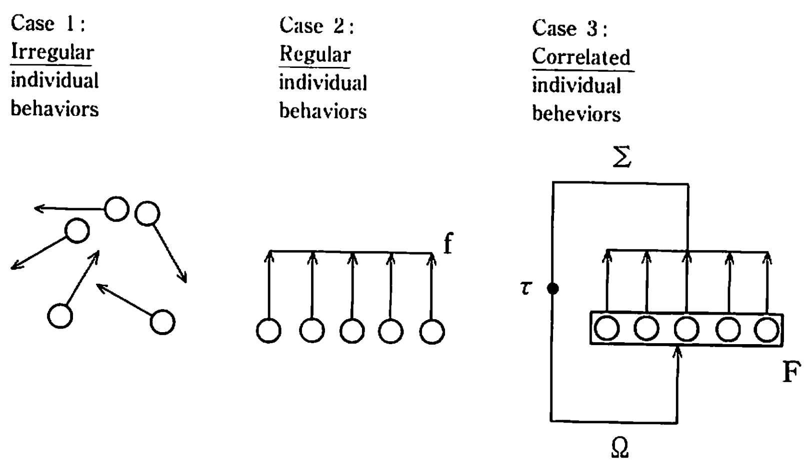

Figure 2 Categories of Collective Behaviors

f stands for "[r]ange of regular behavior," F for "[i]nstitutional field of correlated behavior, "Σ for "[r]egular behaviors; (e.g. all agents behave rationally)," Ω for "[c]orrelated behaviors; (e.g. rationality is order parameter)," and τ for "[p]oint of transition from regular to correlated behavior."

Kurt Dophfer, "The Institutional Entrepreneur: Innovative Origins of Economic Institutions," presented at the 1992 Kyoto Conference of the International Joseph A. Schumpeter Society, 19-22 August, 1992, pp. 2-3. Figure is cited from p. 3. The article will appear with the new title: "The Origins of Economic Institutions: Institutional Entrepreneurs and Behavioural Seeds," in Shionoya, Yuichi & Perlman Mark (eds.), *Innovation in Technology, Industries, and Institutions: Studies in Schumpeterian Perspectives*. Selected from papers given at the 1992 Kyoto Meetings of the Joseph A. Schumpeter Society. Ann Arbor: The University of Michigan Press, 1994 forthcoming.

> Case 1 in figure ... refers to a population with atomistic agents whose behaviors show a irregular pattern. This may reflect ... unsystematic behavioral differentials. Case 2 represents the neoclassical case in which the behaviors of the agents are regular since all behave rational; but rationality is not established as a collective rule. Case 3 represents synergetically ordered behavior. The picture

> distinguishes between an "aggregation range" of regular behavior (*f*) and a "morphic field" of correlated behaviors (*F*) ... At transition value τ, the regular behavior generates an order parameter Ω that results in a morphic field F.[14]

In conceptualizing collective decisions in relation to soft power, case 2 seems to come closer to the situation in which soft power is more likely to play a role in achieving regular behaviors or collective actions. In other words, soft power is a persuasive influence employed to reinforce current behaviors in order to achieve collective decisions and actions when a certain level of mutual interests for collective actions exist but have not yet been "established as a collective rule."

iii. Level of Analysis

As shown in Figure 3, the level of analysis for soft power and collective decisions involves several levels depending upon issue areas, such as the international governmental organization level (IGO), the governmental level (G), the international non-governmental organizational level (NGO), and the transnational corporate level (TNC).

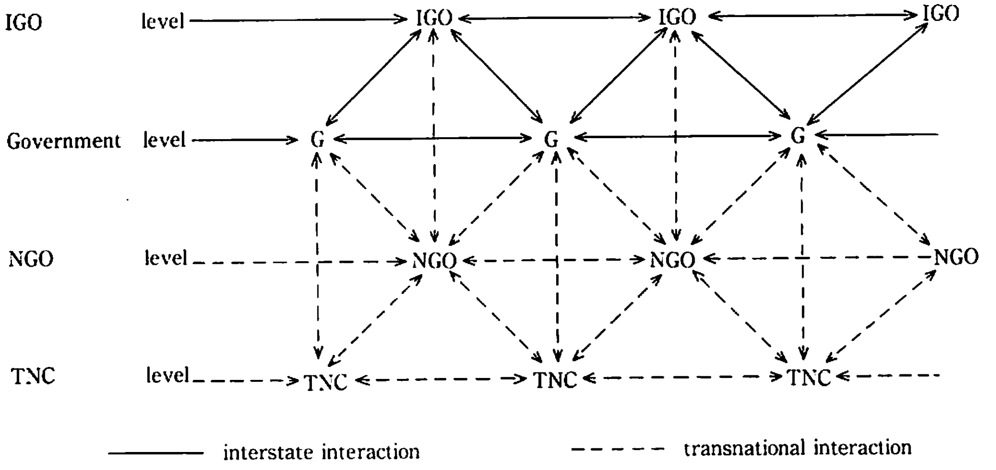

Figure 3 Level of analysis

Centering on governments, networks are formed by interactions between IGOs, between governments, between governments and IGOs, between governments and NGOs, between IGOs and NGOs, between governments and TNCs, between NGOs and TNCs, and between TNCs.

Each government is a kind of entrepreneur in pursuing its objectives by interacting horizontally with other governments and interacting with IGOs, NGOs, and TNCs across the levels in the networks.

Depending on an issue area, specific networks are activated to solve the issue. They are policy networks within which governments move around as primary actors to sell ideas and build international consensus for collective decisions and actions.[15] In this sense, this corresponds to what Nye terms as "soft power," that is, as cited before, "setting the agenda and determining the framework of a debate" in an attempt to get "others to want what you want."

IV. A case Study: The Mexican Debt Crisis

i. The U.S. Interests

The Mexican debt crisis of August 1982 constituted a two fold threat to U.S. interests, both of which were inseparably linked with each other. One threat was to the U.S. banks which had lent huge amounts to Mexico. In Joseph Kraft's words, "[t]he Mexican debt problem, because it engaged most of the biggest American banks, raised the spector of financial panic in the U.S."[16] The other threat was to the international financial system itself, whose maintenance the U.S. had a stake in. Pedro-Pabro Kuczynski points out: "Because Mexico's external debt to the international banking system was so large, it was not possible to delay interest payments and drag out discussions on the principles of refinancing."[17]

The U.S. interests in the crisis were closely related to presenting a relief package for the crisis as a supply of public goods to the international financial policy networks and to mobilizing players involved for collective decisions. For example, at the high point of the crisis relief when Jacques de Larosière, the managing director of the IMF, urged the advisory committee of creditor banks to make $5.2 billion of forced lending on November 16, 1982,[18] Paul Valcker, the Chairman of the Federal Reserve Board (the Fed), in his efforts to back the proposal, presented it as a measure necessary to save the financial system, and public goods. He called upon all the actors involved to take cooperative steps for a solution of the issue. The advisory committee of creditor banks was the NGO created to solve the crisis. Kraft describes Volcker's speech:

> In a speech in Boston, the Chairman of the Fed invoked the threat — "essentially without precedent in the postwar world" — posed by the "financial difficulties of much of the developing world." He asserted that "there exists the strongest kind of community of interest among borrowers and lenders, among governments and private business, and among the developing and the industrialized countries, in working together.[19]

This could be considered a U.S. attempt to determine "the framework of a debate" on the Mexican debt issue.

ii. Bargaining Structure

There were three games involved in the Mexican debt relief. First, there was bargaining between the creditors and the debtor. While the IMF, the Bank of International Settlements (the BIS), the U.S. Government, the Fed, other governments of major countries and their central banks came to be involved as coordinators between the creditor banks and Mexico as well as providers of emergency funds, the advisory committee of creditor banks, led by large international banks, bargained with the debtor over the terms of rescheduling and new fundings. Second, "large banks bargained with each other to set the terms" of rescheduling. Third, "simultaneously," "the large banks sought ratification by smaller creditors."[20]

Robert Axelrod and Robert O. Keohane maintain three essential factors for cooperation in prisoners' dilemma: (1) payoff structure, (2) the shadow of future, and (3) the number of actors.[21] All favored cooperation in the Mexican debt relief.

First, in the game between the creditors and the debtor, the payoff structure was probably CC > CD > DC > DD (C stands for cooperation, and D for defection). If both the creditors and the debtor had chosen defection or non-cooperation (DD), with the debt size of $80 billion, the result would have been the breakdown of the international financial system.

If the creditors had defected and the debtor had cooperated (DC), the outcome would have been the same as (DD). Mexico alone had no capability to avoid default without cooperation from the creditors.

If the creditors had cooperated and the debtor had chosen to free ride (CD), the result would have been the most desirable for Mexico. However, here, the shadow of future comes into play. The penalty for a free ride is in general very large. Pier Carlo Padoan analyzes how difficult default is: "it would imply extremely heavy costs for the insolvent borrower not only in terms of denied future access to international credit markets but also to all other kinds of economic and trade relations with the banks' home countries. Banks therefore run a low risk of running into effective repudiation."[22] In fact, Jesus Silva Herzog, the Finance Minister of Mexico, did not consider the option of default as a viable one: "We import 30 percent of our food. We just can't 'Go to Hell.'"[23] The most realistic option for both the creditor and the debtor, therefore, was cooperation. In fact, the policy de Larosiere took was to "save the international financial system" by keeping "Mexico ... alive."[24]

In the second game between the larger creditor banks, cooperation was the only possible option. First, large banks had high exposure and had "compelling interests in successful debt restructuring." Second, since large banks are "permanent players" in international financial business, they have a stake in future transactions with sovereign borrowers. This made it difficult for them not to cooperate in rescheduling. Third, their status as permanent players added to the need for cooperation. Charles Lipson points out: "Equally important in terms of fostering cooperation, they are linked by a dense network of financial ties so there is ample room for reciprocity and retaliation."[25]

In the third game between large banks and small banks, cooperation was also secured, despite the difficulty involved. Lipson details this point:

> Small creditors ... . Their consent ... is needed to restructure existing legal obligations, and, equally important, their participation is needed to provide new voluntary funds to beleaguered debtors. ...
>
> Smaller lenders may have incentive to refuse, especially if substantial new credits are required. Smaller lenders are not regular participants in international finance and usually have weaker ties to the debtor. Furthermore, they know that larger lenders, who have so much more at risk, will be reluctant to see negotiations fail because of their nonparticipation. ... The basic strategy of the large creditors is to isolate any mavericks who refuse to ratify the basic agreement. A maverick bank, standing alone, faces possible exclusion from other, more profitable syndicate loans and possibly even from correspondent services.

> ...The threat of isolation is a powerful one, and so far it had produced broad support for rescheduling agreements.[26]

According to Axelrod, "reciprocity can be the effective strategy to induce cooperation among self-centered players in the iterated bilateral Prisoners' Dilemma."[27] Axelrod and Keohane maintain that three conditions are necessary for "effective reciprocity": "(1) players can identify defectors; (2) they are able to focus relation on defectors; and (3) they have sufficient long run incentives to punish defectors." However, difficulty in meeting these conditions arises when the number of actors is large.[28]

An existence of a hierarchically ordered network of banks solved the difficulty above in the Mexican debt relief. U.S. banks were hierarchically ordered. First, major banks formed the advisory committee. Each major bank then led a regional subcommittee with 10 regional banks. Each regional bank then led 10 smaller banks. Thus, the hierarchically ordered network covering the entire U.S. was organized under the committee. The committee also included major foreign banks. Each of them represented foreign banks in each region, thus, it covered all banks with claims on Mexico throughout the U.S. and the world. This hierarchical network made it difficult for smaller banks to defect because they would be more readily excluded for retaliation from the financial community by large banks through the network.[29]

iii. U.S. Response

1. Key Players and Policy Networks

In the hypothesis of soft power and collective decision, actors are supposed to be a kind of "entreprenuers" moving across the levels of governments, IGOs, NGOs, and TNCs in an attempt to achieve collective decisions to provide public goods. Their game field is policy networks particular to certain issue areas. Their source of power is (1) presentation of framework for problem solving and (2) persuasion based on reliable information as well as the ability to form a consensus necessary for collective decisions through interactions across networks.

In the Mexican debt crisis, three key players on the creditors side could be identified. They were de Larosiere at the IMF, Volcker at the Fed, and William Rhodes of Citybank on the advisory committee. On the debtor side, Silva was the key player.

Two networks existed, which partially overlapped with each other as shown in Figure 4. One centered around governments and central banks of the G-5 as well as the IMF and the BIS. This network is transgovernmental in nature. The other centered around the advisory committee of creditor banks and money-centered banks. This network is transnational in nature. The advisory committee was the connecting point for the two networks.

With regard to the key role of the central banks network, Kahler points out:

> *Central banks*, led by the U.S. Federal Reserve, were key players in short term crisis managing, providing their first extra-European bridge loan to Mexico... . Central bank cooperation ... was effective, and the bankers' transnational net-

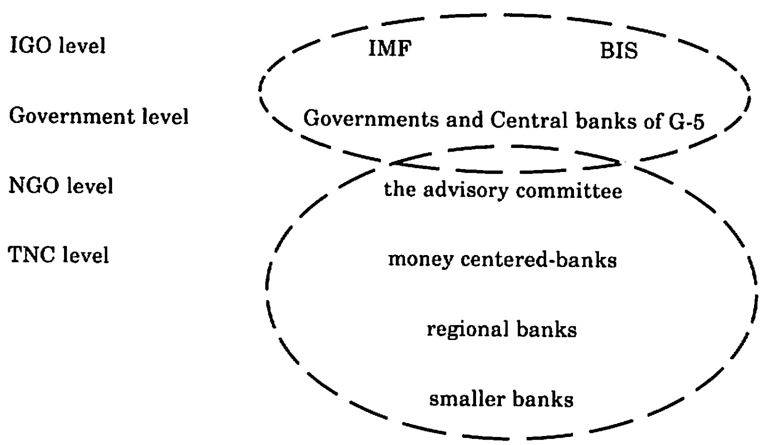

Figure 4 The Policy Networks in the Mexican Debt Relief

work, centered on the Bank for International Settlements, proved resilient.[30]

Thus, in addition to the advisory committee of the creditor banks, the transgovernmental network centered around central banks of the G-5 existed and played the key role in fostering the policy coordination among central banks.

According to Kahler, the effectiveness of central banks in "the early stage of the crisis" came from two factors. First, their close following of developments in financial situations in debtor countries enabled them to obtain knowledge of financial difficulties in these countries. Second, they held the capability to mobilize a bridge loan for the debtors "quickly and without political complications." In addition, their regulatory power over commercial banks provided them with leverage to induce banks into lending new money to the debtor, though it was an auxiliary one. The governments of the G-5 provided the rest of the emergency funds, which the central banks left untouched.[31]

Special connections, which were seemingly essential for policy coordination, existed among Mexico, the IMF, and the U.S. well before the outbreak of the crisis. In Kraft's words, first, the IMF was "full of Mexican expertise"[32], having people such as Steria Beza, Associate Director of the Western Hemisphere Department, who was the manager of the IMF study of the financial situation in Mexico.[33] Second, the Fed was also "a kind of Mexican Mafia inside the government" under Volcker. Volcker himself was previously "president of the New York Federal Reserve Bank, which had major international responsibilities, during the Mexican rescue of 1976."[34] Silva, after being appointed the Finance Minister of Mexico in March of 1982, "regularly lunched with Volcker on visits to Washington."[35] Third, Rhodes "was known to Silva ... and to David Finch, a veteran official of the IMF with special responsibilities for Latin America and close ties to de Larosiere."[36]

In addition, Rhodes played the central role in making meaningful communication possible between "Paul Volcker of the Fed, the chief American financial authority on the public side, and Walter Wriston of Citibank, the chief financial authority on the private side" which was essential for bringing together the measures of the U.S. Government and of commercial banks as a coordinated package.[37]

Among all, Volcker at the Fed was the central figure. The Fed located itself at the key place in the debt crisis because there it held leverage over all the actors: the IMF, central banks of other major countries, the debtor country, and commercial banks. With respect to the U.S.'s special relationship to the IMF and banks, B. J. Cohen points out:

> Because of the global debt problem, the IMF has gained considerable leverage over the behavior of both debtor governments and banks. But the Fund itself is subject to substantial leverage from the U.S. government, which still retains unparalleled influence over IMF decision making ...[38]
>
> The United States still enjoys unparalleled influence over IMF decision — in effect, as implicit veto on all matters of substantive importance. Through its ability to shape attitude at the Fund, therefore, Washington could hope to exercise more leverage over debtors and banks indirectly than seemed feasible directly, and at a lower political cost.[39]

The Fed also leads other central banks of the G-5, G-7, and G-10 in international financial policies. All these placed Volcker at the Fed in a position which enabled him to exert a central influence on leading the Mexican debt relief together with de Larosiere at the IMF.[40]

Taking into consideration the actors and the networks above, the policy network of the Mexican debt crisis can be illustrated as in Figure 4.

2. Political Process

In August 1982, Mexico made a request for a 120 day moratorium on its debt payments. Silva's strategy for the debt was to present it, in Kraft's words, as "the problem of the world" to the IMF, governments and central banks of major countries (especially to the U.S., the Fed, and U.S. commercial banks), so that Mexico could draw major players in the international financial networks into accepting the measures for crisis relief. For this purpose, Mexico intentionally shocked the world by playing up the image of the crisis and attempted to get the world's mind-set tuned to their debt problem.[41]

The role of Volcker was essential at every stage of the crisis relief. According to Kraft, first, in arranging the emergency finance of $1.5 billion (later expanded to $1.85 billion), he called "the heads of the central banks of Britain, Canada, Germany, Japan and Switzerland" to hold a BIS meeting on August 18, 1982. With close coordination of Gordon Richardson of the Bank of England, he was able to persuade them to put up half of the needed sum, while pledging the U.S. contribution of the rest.[42]

In addition, the U.S. made available $1 billion in food credit and another $1 billion as advance payment for the U.S. purchase of Mexican oil.[43]

The second stage for the debt relief was an arrangement of $5 billion in new loans from commercial banks to Mexico as well as the rescheduling of $20 billion of debt. Here also, Volcker played an important role.[44] At his personal request, both Bank of America and Citibank accepted to take the initiative in setting up the advisory committee. In kraft's words, "[t]hat action, in effect, brought the most important banks on board with the central banks in the rescue effort."[45] He also made an arrangement to establish three co-chairmen on the committee.[46]

William Rhodes, one of the co-chairmen, became the key factor in getting the policy of commercial banks in line with that of the Fed. He in fact seems to have performed the function of liason between the official communication network and the commercial one. Kraft describes:

> Rhodes had no trouble around the formal table of organization. He reported sometimes through corporate lending and sometimes through capital development. He developed an easy relation with Wriston personally, and became almost the only person in the American banking community able to touch all bases.[47]

The IMF bridge loan of $1.85 billion decided at the August 18, 1982 BIS meeting was conditional. The loan was to be in exchange for the Mexican acceptance of the economic stabilization program worked out between the IMF and the BIS. The program included "free exchange, restraint in spending and wages, and solemn accords with the financial world."[48] However, the IMF-Mexico accord on the stabilization program encountered difficulty when its negotiation neared completion. Lopez Portillo, the Mexican President, stepped back from the accord and signed "two decrees." One was for bank nationalization and the other was for exchange control from August 31, 1982. These were measures taken in the opposite direction from that the IMF program demanded.[49]

Following this, on October 22, Carlos Tello, the former Minister of Planning and Budgeting, demanded "maintaining exchange controls, and stimulating economic activity through low interest rates and government spending." However, Volcker, Rhodes, and de Larosière stuck to the IMF adjustment program and rejected the Mexican demands for a revision of the conditions.[50]

An important element of collective decisions from the viewpoint of network was the existence of close understanding among all the key players within the policy networks including key Mexican players. This point was illustrated from Tello's viewpoint. Kraft describes:

> Tello, looking back on the negotiation a year later, gave the impression of a man battling, almost alone, for a good cause against the massed forces of evil. As he saw it, de la Madrid, Silva, and most of the Mexican bureaucracy were aligned with the IMF.[51]

de la Madrid, the president-elect, was scheduled to replace Portillo in November 1982. Tello's opposition to the IMF conditionality was thus isolated even within Mexican leadership, allowing de Larosière to prevail in the IMF-Mexican negotiation, resulting in reaching the final accord on November 10, 1982.[52]

Mexico was still short $8.3 billion for the 1983 fiscal year. Thus, de Larosière asked U.S. and foreign commercial banks to make $5 billion of forced lending to Mexico. The request was accompanied by the pledges of $1.3 billion from the IMF and of $2 billion from the U.S. and other central governments.[53] In this attempt, he made the banks' acceptance a prerequistite to the IMF's relief measures.[54] Volcker was in full support of this. He pledged not to apply the Fed's regulation on lending to their credits to Mexico.[55]

Again in Cohen's word, "[t]his message was that considerations of banking prudence would not be allowed to prevail over the objective of keeping a key debtor aloft. On the contrary, banks were reportedly threatened with closer scruting of their books if they did not go along with fresh loans for countries like Mexico."[56]

On November 30, 1982, it was agreed upon that all participating banks should provide an "extra 7 percent" of new money "over their previous exposure."[57] This made any bank unable to escape from the burden of sharing the new loan. With $4.3 billion, "a critical mass," being raised from commercial banks, the board of the IMF accepted de Larosière's recommendation of the IMF-Mexican agreement on December 23, 1982.[58]

Thus, a major step for the mexican debt relief was accomplished. After this, the conditions for $20 billion of the rescheduling were also worked out and were agreed upon by the end of 1983.[59]

V. Assessment of Hypotheses

Volcker's initiative for, in Kraft's words, "the Mexican rescue," can be termed as an excellent exercise of "soft power," successfully leading to the collective decisions and actions to provide public goods.[60] That is, it secured the stability of the international financial system. First, in close coordination with de Larosière of the IMF, Richardson of the Bank of England, and Rhodes of the advisory committee, Volcker helped to form the framework for solving the debt crisis by mobilizing the actors related to the issue across the levels of IGOs, governments, NGO, and TNCs in the policy networks. Second, he persuaded them to take the collective decisions and actions to provide public goods on the basis of accuracy of information and knowledge. In other words, the relief measures such as emergency loans, rescheduling and the supply of new credits were presented by Volcker and de Larosière as those indispensable to an avoidance of the Mexican default and subsequently to the stability of the international financial system.

Third, Volcker's approach was also to reinforce already existing strategic moves. That is, Silva first defined the issue and approached it as "the problem of the world" and presented it as one demanding cooperation among all the actors involved. Volcker responded to Silva's appeal and reinforced his approach.

Thus, the concepts of soft power and of collective decisions enables us to shed a new light on the Mexican debt crisis by illuminating how successfully the U.S achieved its objectives, the avoidance of a Mexican default and subsequently the stability of the international financial system, by mobilizing the IGOs, the governments of the G-5 countries, the NGO, and TNCs into the collective decisions and actions for crisis relief.

Note

1. Joseph S. Nye, Jr., *Bound To Lead: The Changing Nature of American Power* (New York: Basic Books, Inc., Publisher, 1990), pp. 190-195.

2. So far as an analysis of the Mexican debt crisis of 1982 is concerned, my paper solely relies on secondary sources, others' analysis.
3. The Japanese Economic Planning Agency ed., *White Paper On World Economy — 1989* [Sekai Keizai Hakusho] (Tokyo: The Printing Bureau of the Japanese Financial Ministry, 1989), pp. 284-285.
4. Bruce Kogut and Nalin Kulatilaka, "What Is A Critical Capability," presented at the Kyoto International Schumpeter Society Conference in August 1992, P. 1; Rod Coombs, Paolo Saviotti and Vivien Walsh, *Economics and Technological Change* (The United Kingdom: The Macmillan Publishers Limited, 1987), Japanese version, Kei Takeuchi and Takeshi Hiramatsu ed. in translation, Gijutsu kakushin no Keizaigaku (Tokyo: Shinseisha, 1989), pp. 7-10.
5. See, for example, Coombs, Saviotti and Walsh, ibid., Section 4 in Chapter 2.
6. Tadao Miyakawa, "Jyohogijutsu To Keizai Shakai No Paradaimu [Information Techonology and A Paradigm of Economic Society]," in Miyohei Shinohara ed., *Kokusai Tsuka, Gijutsu Kakushin, Choki Hado* [International Currency, Technological Innovation, and Long Wave] (Tokyo: Toyokeizai Shimbunsha, 1988), P. 152.
7. Jean M. Gilpin, *The Political Economy of International Relations* (Princeton, New Jersey: Princeton University Press, 1987), pp. 72-80, especially p. 74, and p. 134.
8. Miyakawa, op. cit., p. 146.
9. Kenichi Imai, *Competition Among Different Systems In Capitalism* (Tokyo: Chikuma Shobo, 1992), pp. 7-17 and 92-96. With respect to the definition of soft power, see citation in pp. 82-83 from Nye.
10. With regard to the first and the second features, see, for example, Nye, op. cit., pp. 190-191.
11. Ibid., pp. 31-32.
12. J. David Singer, "Inter-Nation Influence: A Formal Model," in James N. Rosenau ed., *International Politics and Foreign Policy*, revised edition, (New York: The Free Press, 1969), p. 388.
13. With regard to the concept of reinforcing, ibid.
14. Kurt Dopfer, "The Institutional Entrepreneur Innovative Origins of Economic Institutions," presented at the 1992 Kyoto Conference of the International Joseph A. Schumpeter Society, 19-22 August, 1992, p. 3. This article will appear with the new title: "The Origins of Economic Institutions: Institutional Entrepreneurs and Behavioural Seeds," in Shionoya, Yuichi & Perlman Mark (eds.), *Innovation in Technology, Industries, and Institutions: Studies in Schumpeterian Perspectives*. Selected from papers given at the 1992 Kyoto Meetings of the Joseph A. Schumpeter Society. Ann Arbor: The University of Michigan Press, 1994 forthcoming.
15. The term of "policy network" is borrowed from Kenichi Imai, op. cit., p. 161.
16. Joseph Kraft, *The Mexican Rescue* (New York: Group of Thirty, 1984), p. 8.
17. Pedro-Pabro Kuzynski, *Latin American Debt* (Baltimore and London: The Johns Hopkins University Press, 1988), p. 87.
18. Kraft, op. cit., pp. 48-49.
19. Ibid., p. 49.

20. Charles Lipson, "Bankers' Dilemmas: Private Cooperation in Rescheduling Sovereign Debts," in Kenneth A. Oye ed., *Cooperation Under Anarchy* (Princeton, New Jersey: Princeton University Press, 1986), p. 205.
21. Robert Axelrod and Robert Keohane, "Achieving Cooperation Under Anarchy: Strategies and Institutions," in Oye, ibid., pp. 228-238.
22. Pier Carlo Padoan, *The Political Economy of International Finance* (London: Croom Helm, 1986), p. 133.
23. Cited in Kraft, op. cit., p. 4.
24. Ibid., p. 48.
25. Lipson, op. cit., pp. 210-211.
26. Charles Lipson, "International Debt and International Institutions," in Miles Kahler ed., *The Politics of International Debt* (Ithaca and London: Cornell University Press, 1986), pp. 225-226.
27. Axelrod and Keohane, op. cit., pp. 234-235. The cited part appears in Axelrod-Keohane article as Axelrod's analysis.
28. Ibid., p. 235.
29. Kraft, op. cit., pp. 26-27. Lipson, "Bankers' Delemmas: Private Cooperation in Rescheduling Sovereign Debts," op. cit., pp. 217-218. Axelrod and Keohane, op. cit., p. 237.
30. Miles Kahler, "Politics and international debt: explaining the crisis," in Miles Kahler, ed., op. cit., p. 24. I consider central banks' network to be a trangovernmental.
31. Ibid., pp. 24 and 30-31. Citation is from p. 24.
32. Kraft, op. cit., p. 6.
33. Ibid., pp. 6-7.
34. Ibid., p. 8.
35. Ibid.
36. Ibid., p. 23.
37. Ibid.
38. Benjamin J. Cohen, "International Debt and Linkage Strategies: Some Foreign-Policy Implications for the United States," in Kahler, ed., op. cit., p. 135.
39. Ibid., p. 150.
40. See, for example, Volcker's role in arranging a August 18, 1982 BIS meeting to discuss emergency Loan to Mexico. Kraft, op. cit., p. 10.
41. Ibid., p. 5. Kahler, "Politics and International Debt: explaining the crisis," op. cit., p. 23.
42. Kraft, ibid., p. 10. Kuczynski, op. cit.
43. Kuczynski, ibid. Benjamin J. Cohen, *In Whose Interest?* (New Haven: Yale University Press, 1986), pp. 215-216.
44. Kraft, op. cit., p. 50.
45. Ibid., p. 21.
46. Ibid., p. 23.
47. Ibid., p. 24.
48. Ibid., pp. 22, 28 and 40. Citation is from p. 40.
49. Ibid., p. 38.
50. Ibid., pp. 22, 38 and 45. Citation is from p. 45.

51. Ibid., pp. 44-45.
52. Ibid., p. 46.
53. Ibid., p. 48.
54. Ibid., pp. 48-49, $4.5 billion, 90 percent of the loan, was actually raised. Ibid., p. 54.
55. Ibid., pp. 49-50.
56. Cohen "International Debt and Linkage Strategies," op. cit., pp. 143-144.
57. Kraft., op. cit., p. 50.
58. Ibid., p. 54.
59. Ibid., pp. 54-55.
60. "The Mexican rescue" is Kraft's book title.